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ABSTRACT

Two programs being considered by Congress to aid middle-income college students in coping with ever increasing college costs are examined. Expansion of existing student aid programs to reach families higher on the income scale; or a new program of federal income tax credits for the expenses of higher education. The background of present policy discussions are reviewed, followed by an examination of assumptions underlying the concern for middle income students and a description and analysis of the potential impact of the alternative remedies that have been proposed. It is concluded that unlike tax credits, the student aid alternative is sensitive to a variety of family circumstances, taking such circumstances into account in determining which students need assistance and the amount they require, and would direct far larger individual benefits and a greater proportion of new monies to middle-income families, those with annual incomes between $15,000 and $25,000. By contrast, it is felt that tax credits would extend a small amount of help to nearly all families incurring tuition expenses for higher education, and the largest share of subsidies would go to families with incomes above $25,000. (Author/SPG)

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Middle-Income Students: A New Target for Federal Aid?

Tax Credits and Student Assistance Programs

Janet S. Hansen
Lawrence E. Gladieux

June 1978

A Special Report
from the Washington Office of the
College Board

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College Entrance Examination Board, New York, 1978

The College Board is a nonprofit membership organization that provides tests and other educational services for students, schools, and colleges. The membership is composed of more than 2,000 colleges, schools, school systems, and education associations. Representatives of the members serve on the Board of Trustees and advisory councils and committees that consider the programs of the College Board and participate in the determination of its policies and activities.

The Washington Office of the College Board conducts research relevant to public issues in education, with emphasis on the financing of postsecondary education. The office is located at 1717 Massachusetts Avenue, N.W., Washington, D.C.

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Contents

Acknowledgments v

Introduction and Summary 1

The Emergence of a Political Issue 2

"The Middle-Income Squeeze" 3

Proposed Remedies 10

Who Would Benefit? 15

Outlook 20

Appendix:
The FY 1979 Budget for Support of Postsecondary Students 22

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Acknowledgments

The Washington Office of the College Board conducts research on policy issues in education, with an emphasis on postsecondary finance and the evaluation of federal and state programs designed to broaden access and choice in higher education. Legislative and policy analyses are shared with the membership of the College Board. This report for the membership addresses the issues in current Washington debates over the extent and form of new government assistance to middle-income students.

Janet S. Hansen and Lawrence E. Gladieux prepared the report, assisted by Lois D. Rice, Charles R. Byce, and Pamela H. Christoffel. Portions of the analysis are based on testimony by Lois D. Rice before the House Subcommittee on Postsecondary Education on February 23, 1978. Julia Gordon and Blanche Hudson typed and retyped the draft.

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Introduction and Summary

For many years the major purpose of federal student aid programs[1] has been to increase access to postsecondary education for children from low- and moderate-income families. The first general grant program for undergraduates, which was enacted along with loan and work-study programs in the Higher Education Act of 1965, was inspired by the same concern for the disadvantaged that fostered the "War on Poverty" of the mid-1960s. A decade later another concern has become the subject of heated debate in Washington: that middle- and upper middle-income families feel squeezed out of college by rapidly rising costs because they are too "rich" to qualify for student aid and too "poor" to pay themselves.

Two alternative remedies for the perceived plight of middle-income students are currently being considered in Congress: (1) expansion of existing student aid programs to reach families higher on the income scale, or (2) a new program of federal income tax credits for the expenses of higher education. The outcome of the current debate could well shape the federal role in postsecondary education for many years to come.

This report is designed to help the membership of the College Board and others in the education community to evaluate the issues and alternatives in this ongoing debate. After reviewing the background of present policy discussions, the report examines assumptions underlying the concern for middle-income students, then describes and analyzes the potential impact of the alternative remedies that have been proposed.

The report demonstrates that it is hazardous to generalize about the "plight" of all middle-income families in financing college costs. Some face unusual difficulties while others do not. Unlike tax credits, the student aid alternative is sensitive to the variety of family circumstances. Moreover, the analysis shows that the proposed expansion of current aid programs directs far larger individual

1. "Student aid" here refers to programs, largely those administered by the United States Office of Education, whose primary purpose is to help students meet postsecondary expenses. Other important sources of student support, notably veterans' benefits and social security, were designed mainly to benefit other types of people (veterans, workers, and their families), though some of these benefits are given in the form of educational assistance. An appendix to this report describes FY 1979 budget proposals for all postsecondary student support programs.

benefits and a greater proportion of new monies to middle-income families, those with annual incomes between $15,000 and $25,000. By contrast, tax credits would extend a small amount of help to nearly all families incurring tuition expenses for higher education, and the largest share of subsidies would go to families with incomes above $25,000.

The student aid alternative seeks to build on a tradition that takes individual family financial circumstances into account in determining which students need assistance and the amounts they require. It builds, too, on more than a decade of federal efforts to extend equal opportunity for higher education. Proposals for tuition relief through the reduction of federal income tax payments depart from these goals and run the risk of further complicating the financing of American higher education.

The Emergence of a Political Issue

The present concern for middle-income students came to the fore late in the 1977 session of Congress. Senator William Roth (R-Delaware) attached to a pending social security bill an amendment providing tax credits for college tuition, and debate over this amendment deadlocked the House-Senate conference committee for several weeks. Though House leaders finally succeeded in removing tax credits from the bill, the episode showed that tuition relief would be a major issue in 1978.

The popularity of tuition tax credits has reached an all-time high in Congress. In earlier years serious interest in the concept was concentrated in the Senate, which has passed tax credit bills for college expenses several times since 1967. But no such bill ever reached the House floor until this year. Over half of the members have cosponsored education tax relief proposals of some kind, including deductions and deferrals as well as credits, and on June 1, 1978, the full House approved a tuition tax credit bill.

The congressional drive for college tuition relief has received additional momentum from members who also want to provide assistance to families sending children to nonpublic elementary and secondary schools. Under the leadership of Senators Daniel P. Moynihan (D-New York) and Robert Packwood (R-Oregon), proponents of elementary and secondary school tax credits have joined forces with supporters of college tax credits.

The demand for college tax credits and other forms of middle-class relief stems from three widely held perceptions. One is that the college enrollment rates of middle-income students have suffered a long-term decline in relation to those of other groups. The second is that soaring college costs are rapidly outstripping families' ability to pay them. The third is that existing student aid programs, historically geared to low-income students, do not help middle-income families who are increasingly in need of assistance.

Although agreeing that middle-income families need help with college expenses, the Carter Administration, many congressional leaders, and members of the education community oppose tuition tax credits as costly, inequitable, and complicated[2]. Instead of spreading relatively small benefits over nearly all the college population, they favor expanding existing student aid programs by targeting larger need-based subsidies on families with annual incomes of up to about $25,000. The battle has thus been joined on whether tax credits or student aid will provide a more effective solution to the middle-income problem. The debate over remedies, however, has obscured discussions of the extent and nature of the need among middle-income families for increased federal financing of college costs.

"The Middle-Income Squeeze"

One major problem in evaluating the need for middle-income assistance is that the term "middle income" is not easily defined. Statistically, middle-income families might be considered to be those who are around the median income for all families ($12,199 in 1976), or around the median for all families with children in college ($18,384 in 1976). There are those, however, who feel that

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2. President Carter has characterized college tax credits as an "inefficient and inequitable means of using scarce federal resources to provide financial help to needy middle-income families." The Administration is also wary of college tax credits because of the precedent they might set for elementary and secondary school tax credits, which it firmly opposes on both policy and constitutional grounds. As he unveiled the Administration's plan to expand student aid programs, Health, Education, and Welfare Secretary Joseph A. Califano, Jr., reiterated the President's belief that "Congress must choose between tuition tax credits and the historic increases in federal student assistance that the Administration is...proposing....This nation cannot afford both."

families with much higher incomes--$25,000, $35,000, or even $50,000--are within the middle-income range and need help with college costs. Since legislative attention in Washington at the moment is focused on families with earnings up to about $25,000 annually, this report defines families with yearly incomes between $15,000 and $25,000 as middle income.

Though it is widely held that families at this income level have suffered disproportionate declines in enrollment rates as postsecondary costs have risen, this belief is not supported by the evidence. The facts are that between the years 1969, when the overall college enrollment rate peaked, and 1976, the enrollment rates for students from all income groups declined, and the decline was larger for high-income and low-income students than it was for those in the middle. Moreover, since 1974, when the rate of enrollment was lowest, the recovery for middle-income students was proportionately greater than for any other group of students (Table 1).

The fear that middle-income students were being squeezed out of higher education seemed confirmed by the experience of colleges that were enrolling

Table 1. College Enrollment Rates of Dependent Family Members*
18 to 24 Years Old

Income (in 1976 dollars)	Percent Enrolled		
	Peak year 1969	Low year 1974	Latest year 1976
All incomes	41.3%	36.2%	38.8%
Less than $8,525	24.8	20.3	22.4
$8,525 to $17,050	38.8	31.7	36.3
$17,051 to $25,575	50.6	41.4	47.5
Over $25,575	65.2	57.5	58.2

*Dependent family members are relatives of the family head, excluding the wife.

Source: U.S. Bureau of the Census, Current Population Reports, Series P-20, No. 319, 1978, p.5.

somewhat larger proportions of high- and low-income students and relatively smaller numbers in between. A recent Census Bureau report, however, suggests that changes in the enrollment of middle-income students in postsecondary education result more from a decline in their proportion of the college age group than from lower participation rates. It suggests that as incomes (adjusted for inflation) have risen, the income distribution of dependent 18- to 24-year-olds has also changed: the highest income group has become larger, and the middle group smaller.

The Census Bureau concludes that "...although students from middle-income families declined as a proportion of all students, the change seems to have been related to a change in real income of families rather than a 'squeezing out' of the middle-income students...hence, it cannot be concluded that there was a disproportionate drop in college enrollment among middle-income youth."[3]

Much of the concern over middle-income families is related to rising college costs. According to the Congressional Budget Office, there has been a 74 percent rise at public institutions and a 77 percent rise at private institutions over the decade 1967-76. But average family income has been rising, too, and at a faster rate. Median income of all families, including families with 18- to 24-year-old dependents, increased by 79 percent from 1967 to 1976, while incomes of families with 18- to 24-year-old dependents in college increased by 87 percent. Thus incomes for the middle-income families were rising significantly faster than college costs. Some observers question, however, whether after tax income of middle-income families is keeping pace with college costs. Analyses to date are inconclusive and conflicting on this issue. Some show after tax income roughly constant with increases in college costs, while others show after tax income rising slightly more slowly than college costs.

Along with the perceptions that middle-income enrollment rates are declining and college costs are increasing faster than income goes another common belief: that existing student aid programs do not help middle-income families. Here again, the evidence suggests otherwise. Though most aid

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3. Bureau of the Census, Current Population Reports, Series P-20, No. 319, 1978, p.8.

programs are designed to assist low- and moderate-income students first, they are increasingly reaching into the middle-income range.

Although Basic Educational Opportunity Grants, the "foundation" program of federal student aid, are not currently available to students from families with incomes above $15,000, except in unusual circumstances, other Office of Education programs do benefit many middle-income students. Table 2 shows the proportion of participants from this group in academic year 1976-77, and preliminary data from the Office of Education indicate that this proportion will increase further by the academic year 1978-79.

Furthermore, state need-based scholarship programs have expanded rapidly, tripling in the last six years, and grants are increasingly awarded to middle-income students. A recent survey by the College Board's Washington Office found that 12 states accounting for 71 percent of all need-based state scholarship programs provided 25 percent or more of their grants to families with incomes above $15,000 (Table 3). Two of the largest state programs, in California and Michigan, distributed 50 percent or more of their grants to middle-income students.

Institutions too are awarding more of their own aid to middle-income students. Most institutional assistance is allocated to students on the basis

Table 2. Percent of Dependent Undergraduate Recipients of Federal Student Aid from Families with Incomes of $15,000 or More, Academic Year 1976-77

Program	Percent
Basic Educational Opportunity Grant	4
Supplemental Educational Opportunity Grant	9
College Work-Study	15
National Direct Student Loan	21
Guaranteed Student Loan	36

Source: Calculations from data in Frank J. Atelsek and Irene L. Gomberg, Estimated Number of Student Aid Recipients, 1976-77. American Council on Education Higher Education Panel Reports, No. 36, 1977, p. 14.

Table 3. Percent of State Scholarship Recipients from Families with Incomes over $15,000, Academic Year 1977-78

State	Percent
California	50
Colorado	45
Connecticut	25
Hawaii	25
Illinois	37
Maryland	35
Michigan	57
Minnesota	50
Missouri	28
New York	37
Pennsylvania	26
Vermont	36

Source: Survey by the Washington Office of the College Board.

of individual family financial circumstances. Colleges and universities generally use standardized "need analysis" procedures to assess family resources, considering both income and assets as well as the costs of the institution selected by the student. In recent years, increasing numbers of middle- and even upper-middle-income families have been qualifying for financial aid, as costs have risen and as the amounts parents are expected to contribute to college expenses have been reduced to levels that are judged to be more realistic. In 1977-78, 55 percent of families filing the College Scholarship Service (CSS) forms for student aid had incomes between $12,000 and $35,000 and showed measured need, especially at more expensive colleges. At such institutions, families with still higher incomes can sometimes qualify for aid

if they have special financial problems or more than one child in college.

Finally, the federal Guaranteed Student Loan Program was explicitly designed to assist middle-income families with college costs. Any student can borrow under this program, and students from families with adjusted incomes under $25,000 (about $30,000-$33,000 gross income) are eligible for 7 percent government interest subsidies while they are still in school. The government further subsidizes all guaranteed loans by providing special allowances for lenders to encourage their participation in the program.

In spite of the available evidence, it must still be acknowledged that many middle-income families feel increasingly squeezed by college costs. There may be several explanations.

It is certainly not surprising that families feel burdened by college costs, one of the larger expenditures many families make. And the concern is not new. For example, the Guaranteed Student Loan Program was enacted almost 15 years ago, in response to complaints very similar to those being voiced today and in preference to tax credits, which were also proposed at that time.

However, the burden of college costs is not equally distributed; some families may have serious problems while others may have none. Part of the difference stems from the wide range of costs, especially tuition costs, at different institutions. Almost half of all freshmen enroll at public two-year colleges where average tuition and fees in 1977-78 were $389. About 20 percent attend private institutions where tuition and total costs are significantly higher (Table 4).

The variability in institutional charges is even wider than these averages indicate. Tuition and fees range from zero at some public colleges to nearly $5,000 at a few institutions in the private sector. The proportion of undergraduates choosing public institutions has grown from about 66 percent in 1965 to 78 percent in 1977. Thus a relatively small proportion of families face the large expenditures required by the most expensive schools, though it should be noted that some families may deliberately avoid such large expenditures by restricting their children's choice of college to lower-cost (usually public) institutions.

Perceived problems in meeting college costs may stem from other factors that characterize some but not all middle-income families. Some families face unusual medical or other expenses that limit their ability to set aside

Table 4. Freshman Enrollment and Costs of Higher Education

Institutional type	Percent distribution of new freshmen, 1976*	Average tuition and fees 1977-78	Average other costs 1977-78	Average total costs 1977-78
Public two-year	48.7%	$ 389	$2,161	$2,550
Private two-year	3.0	1,812	2,203	4,015
Public four-year	30.3	621	2,285	2,906
Private four-year	17.9	2,476	2,335	4,811

*Distribution of 1977-78 freshmen not available.

Source: Enrollment data from National Center for Educational Statistics. Cost data from College Scholarship Service, Student Expenses at Postsecondary Institutions, 1977-78.

funds for education. There is also evidence that there has been an increase in the number of families with more than one child in college at the same time, the so-called "sibling overlap" problem. Families looking forward to sending two or more children to college simultaneously will naturally feel under more pressure than those with only one to support, even though the College Scholarship Service's and other need analysis systems take such special circumstances into account in evaluating family ability to pay for higher education.

The recent sense of crisis about middle-income students is also undoubtedly conditioned by broad currents within society. Tax payers are in revolt in many areas of the country as they begin to absorb larger increases in social security taxes and in some state and local taxes. They also feel battered by inflation in general and by costs in some sectors of the economy, such as health care and fuel, which are rising considerably faster than income. Although family earnings grow, they do not seem to buy the life style that many middle-income families expect. Moreover, multiple family wage earners have increasingly become the cause of higher incomes. For example, the proportion of married women (with husbands present) in the labor force has increased from 29.6 percent in 1957 to 36.8 percent in 1967 and 44.4 percent in 1975. Thus

many families may feel that they are staying ahead of rising costs only because both parents are now contributing to income.

Finally, the strength of middle-income protests about the college cost squeeze may have something to do with changing attitudes toward higher education. Americans are more ambivalent about the benefits of a college education than they were a decade ago. The return on an investment in education seems less certain, yet the social and economic pressures to attend college remain strong. Thus the sacrifice required to finance higher education may be subjectively more painful for many families than it once was. And competing priorities for the discretionary income of middle-income families may increase resentment of rising college expenses.

A general conclusion emerges from this discussion of the middle-income squeeze. It is difficult to document arguments that middle-income families, as a group, face a worsening crisis or that their situation has deteriorated noticeably in the last decade; but some middle-income families, because of their individual circumstances, do have a real problem meeting college expenses.

Proposed Remedies

Whatever the reality, many policy makers in Washington accept the existence of a middle-income squeeze and propose a variety of remedies. The Congress now has tax credit and student aid bills awaiting final action that would extend assistance to currently ineligible students and significantly enlarge federal costs (either in forgone tax revenues or in direct expenditures). Tax credits would do so by collecting lower taxes from all families incurring expenses for tuition and fees.[4] The pending student aid legislation would build on the present system, which takes individual family circumstances into account in determining which students need assistance, but would utilize more generous definitions of "need" to reach families further up the income scale.

As noted earlier, the tax credit drive began with Senator Roth's college tuition proposal, and was later joined by supporters of aid to students in

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4. The only families who would not benefit from the credits are those who incur no tuition expenses because the student receives some kind of scholarship or other assistance that covers the total cost or (in a nonrefundable program) those with no tax liability.

nonpublic elementary and secondary schools. In February 1978 the Senate Finance Committee approved a measure combining these two interests, and in early June the House approved a similar but less costly package.

The Senate bill (H.R. 3946) would provide:

- A maximum $250 refundable tax credit (limited to tuition and fees) for vocational and undergraduate students, beginning on August 1, 1978.
- A maximum $500 refundable credit (limited to half of tuition and fees) for elementary and secondary as well as vocational and undergraduate students, beginning on August 1, 1980.
- Expansion of the $500 tax credit to graduate and part-time students, beginning on August 1, 1981.

The refund provision of the bill means that individuals whose tax liability is lower than the credit to which they are entitled would receive the difference in a cash payment from the federal government. People who receive scholarships, fellowships, veterans' benefits, and other nontaxable education benefits would have to deduct them from tuition before determining the amount of their credit.

In April the House Ways and Means Committee broke with a long tradition and reported its first tuition tax credit bill (H.R. 12050). It calls for a nonrefundable credit equal to 25 percent of college tuition combined with required academic fees up to a maximum credit of $100 in 1978, $150 in 1979, and $250 in 1980. The credit would expire after 1980. Full-time college students who attend classes for four months per year and half-time students who attend for eight months would be eligible. College expenses allowable for the credit would have to be reduced in proportion to the amount of nontaxable scholarships and benefits received by the student for tuition purposes. As amended and passed by the House, the bill also contains a smaller credit for tuition expenses for elementary and secondary students.

Congressional Budget Office estimates of the costs of H.R. 3946 and H.R. 12050 (postsecondary portions only) are shown in Table 5. Two sets of figures are provided for the Senate tax credit plan (H.R. 3946), because the bill itself and the committee report contain different provisions for deducting scholarships and other benefits from eligible tuition expenses. The bill says that all such assistance must be deducted from eligible tuition before calculating the allowable credit. The report permits this other aid to be applied

Table 5. Costs of Tax Credit Proposals*
(in Millions of Dollars)

Fiscal year	Senate committee bill	Senate committee report	House passed bill
1978	19	25	15
1979	505	751	374
1980	717	1,111	612
1981	1,301	1,900	657
1982	2,226	2,998	0
1983	2,914	3,886	0

*Postsecondary projections only. Tax credits for elementary and secondary tuition expenses are estimated to cost $4,771 million under the Senate committee bill and $4,759 under the Senate committee report between 1978 and 1983. The elementary and secondary portion of the House tax credit bill is estimated to cost $1,263 million between 1978 and 1981, after which the credit would expire.

Source: Congressional Budget Office, Financial Assistance for Postsecondary Education: Options for Fiscal Year 1979, 1978.

to tuition and other educational expenses at the discretion of the donor, and only the part allocated for tuition would be deducted in determining the amount of the credit.

As a counter to tax credits, both the Senate Human Resources and House Education and Labor Committees modified a program proposed by President Carter in February to extend current student assistance programs to middle-income students (S. 2539 and H.R. 11274). Most important, the committees rejected the Administration's original plan to provide a flat $250 Basic Educational Opportunity Grant (BEOG) to all students from families with incomes between $16,000 and $25,000. Instead, S. 2539 and H.R. 11274 both keep BEOGs related to need and provide graduated grants to families earning up to about $25,000 by lowering the current assessment rate on discretionary income. The bills also increase authorizations for several other existing student aid programs and remove income limitations for subsidy under the Guaranteed Student Loan program.

Provisions of the Senate and House measures are summarized below. All the changes would be effective beginning in academic year 1979-80 except for those affecting the Guaranteed Student Loan Program, which would take effect in 1978-79.

S. 2539
The College Opportunity Act
of 1978

BEOG: Mandates an assessment rate of 10.5 percent on discretionary income in the expected family contribution schedule for dependent students (compared to current rates of 20 percent on first $5,000 of discretionary income and 30 percent on remainder).

College Work-Study (CWS): Increases the minimum funding threshold to $500 million beginning in FY 1979, $65 million over the FY 1978 appropriation level.

Supplemental Educational Opportunity Grants (SEOG): Increases the minimum funding threshold to $370 million in FY 1979 and $450 million in FY 1980, compared to the FY 1978 appropriation level of $270 million.

Guaranteed Student Loans (GSL): Removes the adjusted family income ceiling (now $25,000) on eligibility for the in-school interest subsidy.

State Student Incentive Grants (SSIG): Alters requirement provided in Education Amendments of 1976 so that states with constitutional barriers to funding colleges with religious ties will be able to continue participating in SSIG after next year.

H.R. 11274
The Middle-Income Student
Assistance Act

BEOG: Mandates an assessment rate of not more than 10.5 percent on discretionary income in the expected family contribution schedule for dependent students if the program is fully funded and 12 percent if the program is not fully funded; also liberalizes the expected family contribution schedule for independent students.

College Work-Study (CWS): Increases the minimum funding threshold to $520 million in FY 1979 and $600 million in FY 1980, compared to the FY 1978 appropriation level of $435 million.

Supplemental Educational Opportunity Grants (SEOG): Increases the minimum funding threshold to $340 million in FY 1979 and to $450 million in FY 1980, compared to the FY 1978 appropriation level of $270 million.

Guaranteed Student Loans (GSL): Removes the adjusted family income ceiling (now $25,000) on eligibility for the in-school interest subsidy; provides an additional one-half percent special allowance to lenders during repayment of loans.

State Student Incentive Grants (SSIG): Changes the base year for state matching to FY 1978 for that portion of the federal SSIG appropriation exceeding $75 million; also, committee report calls for $10 million additional in SSIG over the FY 1979 budget request of $77 million.

The student aid bills call for increased expenditures beginning with the federal fiscal year 1979 budget. Table 6 estimates total costs if these measures were implemented. The estimates for BEOGs assume that maximum grants are $1,800, as authorized in existing legislation. Neither bill proposes changes for the National Direct Student Loan (NDSL) Program.

Many of the increases called for in the pending student aid bills could be made without enacting new legislation. Under existing law, the Commissioner of Education has the authority to liberalize the BEOG expected family contribution schedules, and current statutes also permit (but do not require) Congress to appropriate more money for other student aid programs. The major proposed change that would require new legislation is the removal of the income limit on eligibility for interest subsidies in the Guaranteed Student Loan Program.

Table 6. Total Fiscal Year 1979 Budget Requirements for Student Aid Under Current Proposals (in Millions of Dollars)

	FY 1978	FY 1979	
	Appropriations	Senate committee bill	House committee bill (10.5% BEOG tax rate)
BEOG	$2,160	$3,286	$3,417
SEOG	270	370	340
CWS	435	500	520
NDSL	326	304	304
SSIG	64	77	87
GSL	530	821	836
Total student aid	$3,785	$5,358	$5,504

Sources: Office of Education; Congressional Budget Office, Federal Assistance for Postsecondary Education: Options for Fiscal Year 1979, 1978.

Who Would Benefit?

Student aid and tax credit bills would bring benefits to middle-income students in varying degrees, depending on their specific provisions. Assuming that any new program would not significantly alter enrollment rates or college choices, it is possible to analyze how the different bills would affect students at various levels of income.

Four general comments should be made about figures used in the following discussion.

- Information is provided on both interpretations of the Senate tax credit bill, for reasons noted earlier.
- Only the postsecondary parts of the tax credit measures are considered.
- Only the BEOG portions of the House and Senate student aid bills are used to estimate their effects on families with differing incomes. The impact of changes in other student aid programs on middle-income students is difficult to assess, although Congress clearly intends the additional funds proposed for Supplemental Educational Opportunity Grants, College Work-Study, and State Student Incentive Grants to result in more assistance for the middle-income group. Higher funding levels for these programs and elimination of the income ceiling for loan subsidies should provide more dollars for middle-income families, although exact projections are not available. In the last few years rising BEOG appropriations have apparently contributed to a shift of funds in other student aid programs toward middle-income students. This trend should be accelerated by the new student aid proposals, which include increased funding for BEOGs as well as most other student aid programs administered by the Office of Education.
- FY 1980 estimates for tax credits are used, for two reasons. FY 1980 is the first year in which tax credit costs will reflect a full year of eligibility. Credits claimed in that year would also cover the period most similar to the FY 1979 BEOGs, which because of forward funding will be distributed to students in academic year 1979-80.

All the current BEOG and tax credit bills would result in a greater proportion of overall federal expenditures going to middle-income and upper-income students (Table 7). Very little BEOG money would go to students with

Table 7. Distribution by Income of Benefits, BEOGs and Tax Credits (Dollars in Millions and Percent)

Income	FY 1978 BEOGs* under existing program $	%	FY 1979 BEOGs* Senate committee bill $	%	FY 1979 BEOGs* House committee bill (10.5% BEOG tax rate) $	%
$0-$15,000	2,008	(94)	2,173	(68)	2,305	(69)
$15,000-$25,000	128	(6)	917	(29)	916	(27)
$25,000 and over	0	(0)	125	(4)	125	(4)
Total†	2,136	(100)	3,215	(100)	3,346	(100)

*BEOG totals include only the amounts available for distribution to students. Administrative costs are not included.

†Totals may not add to 100 percent because of rounding.

Source: Congressional Budget Office, Financial Assistance for Postsecondary Education: Options for Fiscal Year 1979, 1978.

family incomes over $25,000,[5] whereas under any of the various tax credit plans this group would receive the most significant proportion of benefits. (While the proportion of BEOG money going to families with incomes under $15,000 would decline dramatically, individual awards for this group would not be reduced and in fact would increase for some students.)

Table 8 shows the distribution of the incremental increases in expenditures over current law that would result from passage of the Senate or House student aid and tax credit bills. Of all the proposals, the House and Senate student assistance bills focus the largest share of new monies on families with incomes between $15,000 and $25,000. In fact, the proportion of new benefits going to middle-income families under the student aid proposals would be nearly twice that of any of the tax credit bills, which provide a disproportionate share of assistance to families with incomes above $25,000.

5. Some families earning over $25,000 would qualify for BEOGs because of unusual financial circumstances or large family size.

FY 1980

Tax Credits

Senate committee bill		Senate committee report		House passed bill	
$	%	$	%	$	%
101	(14)	355	(32)	128	(21)
222	(31)	323	(29)	200	(33)
394	(55)	433	(39)	284	(46)
717	(100)	1,111	(100)	612	(100)

Still another way to compare the impact of the alternative proposals is to look at the distribution of recipients and their average benefits by income categories. Table 9 suggests that the BEOG proposals would more than triple the number of middle-income students eligible for the program, and these students would receive much higher average benefits than under any of the tax credit proposals. The table also indicates, once again, the extent to which tax credit proposals concentrate benefits on the group above $25,000 whose recipients number substantially more than those in the $15,000-$25,000 group.

Finally, despite the varied provisions of the tax credit and student assistance proposals, there is seemingly little difference in their impact on sectors of postsecondary education. According to estimates by the Washington Office of the College Board, benefits under the tax credit and student aid alternatives would be distributed in roughly the same way among public, private, two-year, and four-year institutions as students are currently

Table 8. Distribution by Income of Incremental Increases over Current Law,* BEOGs and Tax Credits
(Dollars in Millions and Percent)

	FY 1979				FY 1980					
	BEOGs				Tax Credits					
	Senate committee bill		House committee bill (10.5% tax rate)		Senate committee bill		Senate committee report		House passed bill	
Income	$	%	$	%	$	%	$	%	$	%
$0-$15,000	286	(25)	418	(32)	101	(14)	355	(32)	128	(21)
$15,000-$25,000 .	750	(64)	749	(58)	222	(31)	323	(29)	200	(33)
$25,000 and over .	125	(11)	125	(10)	394	(55)	433	(39)	284	(46)
Total	1,161	(100)	1,292	(100)	717	(100)	1,111	(100)	612	(100)

*To calculate incremental increases over current law for BEOGs, the Congressional Budget Office projected the costs and distribution of grants in FY 1979 assuming that the current program was unchanged and fully funded. It then used these calculations as the basis from which to determine incremental increases. Total dollar changes, therefore, are changes over the FY 1979 "current law" projections and not over FY 1978 actual program levels.

Source: Congressional Budget Office, Financial Assistance for Postsecondary Education: Options for Fiscal Year 1979, 1978.

distributed among these types of institutions.

The foregoing analysis of who would benefit and by how much from the alternative proposals is based on current patterns of student enrollment. One large unknown is how the various plans might affect enrollment rates and institutional choices. Changes in the college-going patterns of students at different income levels would affect the above distributions. Private colleges, which already feel threatened by the low, subsidized tuition at most public institutions, are wary of any plan that might widen the "tuition gap" between the public and private sectors and thus weaken their ability to recruit students. Some tax credit plans have this potential.

Table 9. Distribution of Recipients and Average Benefits, BEOGs and Tax Credits
(Recipients in Thousands)

Income	FY 1978	FY 1979		FY 1980		
	BEOGs	BEOGs		Tax Credits		
	BEOGs under existing program	Senate committee bill	House committee bill	Senate committee bill	Senate committee report	House passed bill
$0-$5,000						
Recipients* . . .	439	441	447	174	762	147
Average benefit .	$1,082	$1,063	$1,257	$ 167	$ 160	$ 54
$5,000-$10,000						
Recipients . . .	759	775	804	130	528	605
Average benefit .	$1,123	$1,137	$1,132	$ 169	$ 169	$ 68
$10,000-$15,000						
Recipients . . .	612	822	834	224	660	898
Average benefit .	$ 834	$1,001	$ 999	$ 223	$ 218	$ 88
$15,000-$20,000						
Recipients . . .	380	676	677	388	678	968
Average benefit .	$ 510	$ 809	$ 805	$ 204	$ 230	$ 102
$20,000-$25,000						
Recipients . . .	n.a.†	646	644	571	631	892
Average benefit .	n.a.†	$ 573	$ 576	$ 250	$ 265	$ 113
$25,000 and over						
Recipients . . .	-0-	312	312	1,530	1,599	2,195
Average benefit .	-0-	$ 401	$ 401	$ 258	$ 271	$ 129

*"Recipients" are the number of individual students receiving BEOGs and the number of families receiving tax credits. The number of students for whom tax credits are claimed would exceed the number of families benefiting from credits, since some families have more than one eligible student member. The existence of many families with two or more students in college also explains why average credits for some groups exceed $250, the maximum benefit per student.

†Figures not available. Because of very unusual financial circumstances, a small number of students (probably under 5,000) from families earning between $20,000 and $25,000 will receive small BEOGs in FY 1978.

Source: Calculations from data from the Office of Education; Congressional Budget Office, Federal Assistance for Postsecondary Education: Options for Fiscal Year 1979, 1978.

The actual benefits to students under alternative proposals are thrown into doubt by two other considerations. Students would not be better off if institutions merely raised tuition by the amount of new federal assistance, an occurrence some fear might accompany tax credits available to everyone going to college. Low- and middle-income students might also be hurt if the availability of tax credits caused federal and state governments to cut back on need-based student aid or restrict its future growth.

Finally, a major disagreement looms about the relative complexity of the different proposals, both for students and their families who need assistance and for the institutions that must contend with government paper work when any federally aided students enroll. Supporters of tax credits make the claim that families will find it much easier to obtain credits through the tax system than to complete cumbersome financial forms for need-based student assistance. Tax provisions, however, seldom turn out to be simple, and many middle-income students already complete the necessary student aid forms as they seek aid from nonfederal sources. Moreover, tax credits promise to present institutions with a new layer of requirements from the Internal Revenue Service--for example, for certifying student attendance and costs--while they are already fulfilling the obligations of participation in BEOG and the other student aid programs under the Department of Health, Education, and Welfare.

Outlook

As this report is written in early June, the situation in Congress with regard to student aid and tax credits is very fluid. The House has passed a tax credit bill, containing all the postsecondary provisions of its committee bill and adding as a floor amendment credits for families with children in private and parochial elementary schools. The House also expects to consider the student aid bill in this session. The Senate must still act on student aid and tax credits.

Like the Administration, the House and Senate conferees on the first budget resolution agreed that funding should be available for either tax credits or the student aid alternative, but not both.

Whether and in what form any new assistance for students is approved in

1978 depends on many things: balances of power within Congress, the intricacies of parliamentary procedure, jurisdictional maneuvering among congressional committees (authorizing, budget, and appropriations), the fate of general tax relief and reform legislation, election year politics, and the threat of a presidential veto. President Carter has said that he will veto tax credit legislation, although his inclination to do so may depend on whether tax credits reach his desk in a separate bill or as part of other legislation such as general tax relief.

Not least, Congress and the President will act on the basis of what they hear from affected constituencies, including education institutions, about the pros and cons of alternative legislation.

A deadlock over current proposals for aiding middle-income students through student aid or tax credits might result in the proposal of new plans that would have consequences different from those described above. About all that can be said with certainty is that assistance to middle-income students will continue to dominate discussions about higher education this year and will clearly influence the process of reauthorizing student aid programs when the Higher Education Act comes up for renewal in 1979, particularly if no prior action is taken.

Appendix:

The FY 1979 Budget for Support of Postsecondary Students

Overall federal patterns of support for postsecondary students provide the context in which current proposals for increased middle-income assistance are being considered. This appendix describes existing patterns and the Carter Administration's proposals for student support in FY 1979, as contained in the President's budget submitted to Congress. Congressional budget and appropriation committees are developing their own funding plans, and there are already signs that they will disagree in some significant ways with the President. Final FY 1979 figures should be determined before the beginning of the fiscal year on October 1, 1978.

Office of Education Programs

Table A1 gives budget figures for the major Office of Education student aid programs. The President's budget request for FY 1979 reflects the cost of proposals he made to Congress in February for aiding middle-income families. As discussed earlier in this report, the House and Senate education committees modified the Administration's recommendations as they debated H.R. 11274 and S. 2539.

Special Programs for the Disadvantaged--Though not student aid per se, the TRIO programs (Talent Search, Upward Bound, Special Services) and Educational Opportunity Centers help increase access to postsecondary education through services provided to many of the same individuals eligible for other programs. The Administration proposes to fund these activities at $115 million in FY 1979, the same level as in FY 1978. Action to date by the Appropriations Committees suggests that Congress will vote higher levels of funding for TRIO and EOCs. The President requests no money for the new program of Educational Information Centers, for which Congress appropriated $2 million in FY 1978; Congress seems likely to continue funding for EICs in FY 1979.

Other Office of Education Student Assistance--Under the rubric "professional development," the budget includes several small student aid programs: graduate and professional educational opportunities, legal training for the disadvantaged (CLEO), law school clinical experience, public service fellowships, mining fellowships, and college teacher fellowships. In FY 1978, the graduate and professional educational opportunities program was funded at $3 million; the President's FY 1979 budget requests $8 million to encourage minority students to enroll in fields where they are currently underrepresented. The Administration requests $1 million (the same as the FY 1978 appropriation) for CLEO, and nothing for the other programs, which received $9 million in FY 1978.

Veterans' Education and Training

Education and training for veterans under the GI Bill has historically been the largest federal program providing funds to postsecondary students. However, the GI Bill is being surpassed in magnitude by the BEOG program as the number of veterans receiving benefits continues to decline. In FY 1979 GI

benefits will total roughly $1.8 billion for postsecondary students, compared to $2.2 billion in BEOGs even if no changes are made to assist middle-income students.

The decline in veterans' benefits is occurring in part because large numbers of post-Korea GI's are reaching the 10-year delimiting date and are thus becoming ineligible for further education benefits. In addition, the pool of eligible veterans is shrinking because the post-Korea GI Bill was terminated as of December 31, 1976, and no new post-Korea era veterans could become eligible after that time. The new, more limited post-Vietnam era GI Bill went into effect on January 1, 1977, and established a voluntary matching plan for future education benefits. Finally, the Carter Administration

Table A1. Office of Education Student Aid Programs*

(Dollars in Millions)

	FY 1977 funding level (for use in 77-78)	FY 1978 funding level (for use in 78-79)	FY 1979 President's budget request (for use in 79-80)
1. Discretionary programs:			
Basic Grants (BEOG)	$1,692	$2,160	$3,167
Supplemental Grants (SEOG) . . .	250	270	270
College Work-Study (CWS)	390	435	600
National Direct Loans (NDSL) . .	323	326	304
State Incentive Grants (SSIG) . .	60	64	77
Subtotal-- Discretionary programs . . .	$2,715 (for use in 76-77)	$3,255 (for use in 77-78)	$4,418 (for use in 78-79)
2. Nondiscretionary programs:			
Guaranteed Loans (GSL + Health Profession Loans)	$ 367	$ 530	$ 827
Total Office of Education programs	$3,082	$3,785	$5,245

*The discretionary programs in this table are all controllable budget items; that is, the President and Congress may appropriate as much or as little as they wish within the limits of the overall program authorization. In the guaranteed loan programs, on the other hand, sufficient funds must be appropriated to cover interest subsidies and defaults. Guaranteed loan appropriations, therefore, are nondiscretionary, except insofar as eligibility changes are made that affect the amounts of money required for subsidies and defaults. The discretionary programs are all forward funded by one year, while guaranteed loans are funded on a current-year basis.

echoes previous Republican efforts to eliminate flight and correspondence training for veterans, saving an estimated $100 million in FY 1979. In the past, however, Congress has refused to accept these legislative changes.

Table A2 shows the estimated numbers of eligible veterans and expected costs for both the post-Korea and post-Vietnam GI Bills. Proposed legislative changes are not reflected.

In addition to the benefits described above, the Veterans Administration estimates that 110,000 eligible sons and daughters and wives and widows of servicemen will receive education benefits in FY 1979 amounting to nearly $220 million.

Disabled veterans requiring vocational rehabilitation are also eligible to receive benefits covering their costs for tuition, books, subsistence, supplies, and equipment. The VA estimates that FY 1979 education and training costs for these disabled veterans will total $114 million, up approximately $3 million from FY 1978.

Recent legislation (P.L. 95-202) created a system whereby eligible veterans may accelerate their education entitlement through the use of an education loan. Upon completion of training the VA would pay one-third of the loan as an acceleration of the trainee's entitlement. The VA estimates that this system will cost approximately $1.2 million in FY 1979. In addition, the new law raises the loan limit for a regular academic year to $2,500 and eliminates the requirement that applicants must have sought and been denied a guaranteed loan. The VA estimates that the additional cost to the readjustment benefits appropriation will be $17.2 million in FY 1978 and $74.3 million in FY 1979.

Health Manpower Programs

Table A3 presents current funding and the President's proposed budget for those health manpower programs which provide student support. Here again the Administration and Congress disagree over future efforts. The FY 1979 Carter budget requests cuts in health manpower educational programs. Overall, the budget proposes a decrease in this area from $551 million in FY 1977 to $335 million by FY 1979. The Department of Health, Education, and Welfare (HEW) believes that the country has an adequate number of physicians but still suffers from problems of geographic and specialty distribution.

Table A2. Veterans' Education and Training*

Costs (in thousands)	FY 1977	FY 1978	FY 1979
Post-Korea	$3,567,244	$2,814,169	$2,418,923
Post-Vietnam	---	102	1,400
Trainees:			
Post-Korea	1,937,874	1,446,950	1,235,030
Post-Vietnam	---	150	2,170

*It is estimated that approximately 77 percent of this education and training is at the postsecondary level.

The budget, therefore, favors programs with incentives or requirements aimed at improving the distribution of physicians, like the National Health Service Corps Scholarship Program and the new Health Professions Guaranteed Student Loan Program to be administered by the Office of Education. Since the Administration also believes that the supply of nurses is adequate, it proposes phasing out most nursing programs, and undergraduate nurses are expected to turn to general grant and loan programs for financial support. In funding health manpower student programs, the budget concentrates on activities that will ease geographic distribution problems, encourage minority and disadvantaged students to enter the health professions, and support selected health specialty training. In past years the Congress has overridden attempts to deny funding to the programs currently scheduled for elimination.

Law Enforcement Education Programs

The United States Department of Justice proposes $29.2 million for education assistance and special training programs administered by the Law Enforcement Assistance Administration (LEAA), down from $44.3 million in FY 1977. These funds support a number of training activities in the criminal justice area, including the Law Enforcement Education Program (LEEP).

LEEP has been cut regularly in recent years by Administration budget makers, and funds have usually been restored by the Congress. In FY 1977, funds for LEEP amounted to $40 million of the $44.3 million total in this education and training category. According to LEEP officials, the total figure of $34.2 million in education and training funds for FY 1978 includes $30 million for LEEP, but FY 1977 carry-over funds should bring the actual LEEP total close to $40 million. For FY 1979, however, the total Administration request of $29.2 million would permit only $25 million for LEEP.

Table A3. Selected Health Manpower Programs

(Dollars in Thousands)

Program	FY 1977 Actual	FY 1978 Estimated	FY 1979 Estimated
Health Professions Scholarships	990	--	--
(Repayments)	3,542	1,500	1,500
Health Professions Loans	23,760	20,000	--
Nursing Scholarships	6,428	9,000	--
(Repayments)	500	1,500	--
Nursing Loans	22,248	22,500	--
Nurse Traineeships	12,870	13,000	--
Nurse Practitioner Program	8,910	13,000	13,000
Health Service Scholarships	39,600	60,000	60,000
Disadvantaged Students Program	9,899	15,000	17,000
Exceptional Need Program	--	5,000	5,000
Public Health Traineeships	9,028	7,000	1,500
Health Administrator Traineeships	--	1,500	1,000
Allied Health Traineeships	2,966	3,000	--

Social Security Program

Since their enactment in 1965, social security education benefits for dependents of dead or disabled workers have been a major source of student support. Table A4 shows the number of social security beneficiaries who are at the postsecondary level (estimated to be 80 percent of all 18- to 22-year-old beneficiaries) and the payments going to them.

The table does not reflect estimated savings from a Carter Administration proposal to put a cap on education entitlements for students under social security. The President's FY 1979 budget recommends that the special student dependent benefit be limited to the maximum payable under the higher education BEOG program ($1,600 in school year 1978-79). According to HEW, this proposal will provide further improvement in the financing status of the social security trust fund and "is based on the movement of federal higher education funding towards a policy of providing student financial aid based on actual need." However, as was pointed out last year in debate over a similar proposal, the only data available about social security student beneficiaries indicate that most of them are in fact needy and that they resemble students with defined financial need. The Congress did not react favorably to arguments to cap the social security benefits program last year, and there is no indication that the response will be different this year.

The Administration estimates savings of $117 million in FY 1979 if the proposed limit on student benefits is enacted.

Indian Adult and Higher Education

The Bureau of Indian Affairs, United States Department of the Interior, provides financial assistance to Indian students attending higher education institutions and also to Indian adults enrolled in continuing and vocational education courses. Over the years these funds have remained relatively stable, as shown in Table A5.

In addition, the Office of Education awards fellowships to Indians for professional or graduate study in the fields of engineering, medicine, law, business, forestry, and related areas. The Office of Education expects to award 275 such Indian fellowships in FY 1979, amounting to approximately $4 million.

Tax Expenditures

The Congressional Budget Act of 1974 requires the President to report in his budget on "tax expenditures," or revenues lost because of federal tax laws that exclude or otherwise require special treatment for certain kinds of in-

Table A4. Estimated Social Security Student Beneficiaries Attending Postsecondary Education and Budget Outlays

	FY 1977	FY 1978	FY 1979
Estimated postsecondary beneficiaries . .	668,000	695,000	720,000
Outlays (in millions)	$1,374	$1,565	$1,842

Table A5. Indian Adult and Higher Education

	FY 1977	FY 1978	FY 1979
Higher Education Grants:			
Budget amount (in thousands)	$33,936	$35,951	$34,803
Estimated students	17,000	20,000	20,000
Adult Continuing Education:			
Budget amount (in thousands)	$ 2,757	$ 3,605	$ 4,623
Estimated students	18,350	18,350	18,500
Adult Vocational Training:			
Budget amount (in thousands)	$17,200	$15,800	$17,700
Estimated students	8,500	8,500	7,000

come. Several of these tax expenditures relate to the area of student assistance for higher education, because they involve preferential treatment of education benefits or of parental income when there are dependent children enrolled in school. The Administration estimates that in FY 1979 the exclusion from taxable income of GI Bill benefits will reduce federal revenues by $155 million. The similar exclusion of scholarship and fellowship income will result in a revenue loss of $280 million. Parental exemptions claimed for students over 18 enrolled full time in higher education will reduce federal revenues by another $720 million.